

(Security Classification)

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Unauthorized Disclosure Subject to Criminal Sanctions

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National Intelligence Daily Cable for Tuesday, August 2, 1977

The NID Cable is for the purpose of informing senior US officials.

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NORTH KOREA: New Boundary Zone

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[] //North Korea's public declaration yesterday of a 50-mile "military boundary" formalizes its previously unpublicized coastal security zone and coincides with the implementation of the country's 200-mile economic zone. The announcement raises the possibility that Pyongyang may once again attempt to challenge South Korea's access to five islands off the western coast of Korea that are under the control of the United Nations Command and that lie within North Korea's claimed territorial waters. The South Koreans are scheduled to resupply the islands by sea and air today. The new zone also seems certain to raise complex problems in the international arena on Law of the Sea issues.//

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[] According to the official North Korean news agency, the new security zone was established by the military high command. Off the east coast, the zone extends "up to" 50 nautical miles from the 12-nautical-mile territorial limit. Off the west coast, the security zone coincides with the economic zone.

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[] The press announcement declares that foreign military aircraft or ships are prohibited from the new zone. According to the announcement, civilian ships and aircraft, "excluding fishing boats," can enter the area only with prior approval. It is not clear if fishing boats are being exempted from the prior-approval provision or are being excluded entirely from the military zone.

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[] In mid-1976, North Korean officials told a Japanese Socialist Party delegation that Pyongyang claimed a security zone extending some 50 nautical miles from both coastlines. The visitors were told that if Japanese fishing boats within that zone were approached by North Korean patrol boats, they should respond immediately. Once the fishing boats identified themselves, they would be guaranteed security.

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[] As a result of this information, the US issued a notice to mariners on July 29, 1976, advising them to navigate with caution in waters adjacent to the claimed North Korean zone.

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[] On July 1, North Korea announced it was establishing a 200-mile economic zone to take effect on August 1. Yesterday's announcement specifically states that the military boundary is being established "to protect" the economic zone. Even so, off the east coast the two zones do not coincide, and North Korea's apparent intent to control all commercial and military navigation in the security zone goes well beyond normal enforcement procedure in offshore economic zones.

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[] South Korea has stated publicly that it refuses to recognize the newly announced military zone. Seoul notes that the new zone may cause a change in the status quo that has existed since the 1953 armistice agreement.

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[] South Korea is apparently concerned that the North might attempt to restrict access to the five small UN-controlled islands off the western coast. The islands lie south of the seaward extension of the Demilitarized Zone and are occupied by South Korean forces.

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[] The islands also lie within North Korea's claimed 12-mile territorial sea. In December 1973, Pyongyang temporarily threatened to take action against any ships attempting passage without prior clearance, but the North subsequently modified its position and never enforced the requirement for advance notice.

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[] A South Korean civilian ferry is scheduled to make a resupply run to the islands today; as is customary, it will be accompanied by a South Korean navy escort. The South Korean air

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force has increased slightly the number of its aircraft available on standby. A South Korean military transport is also scheduled to fly unaccompanied to the islands later on today.

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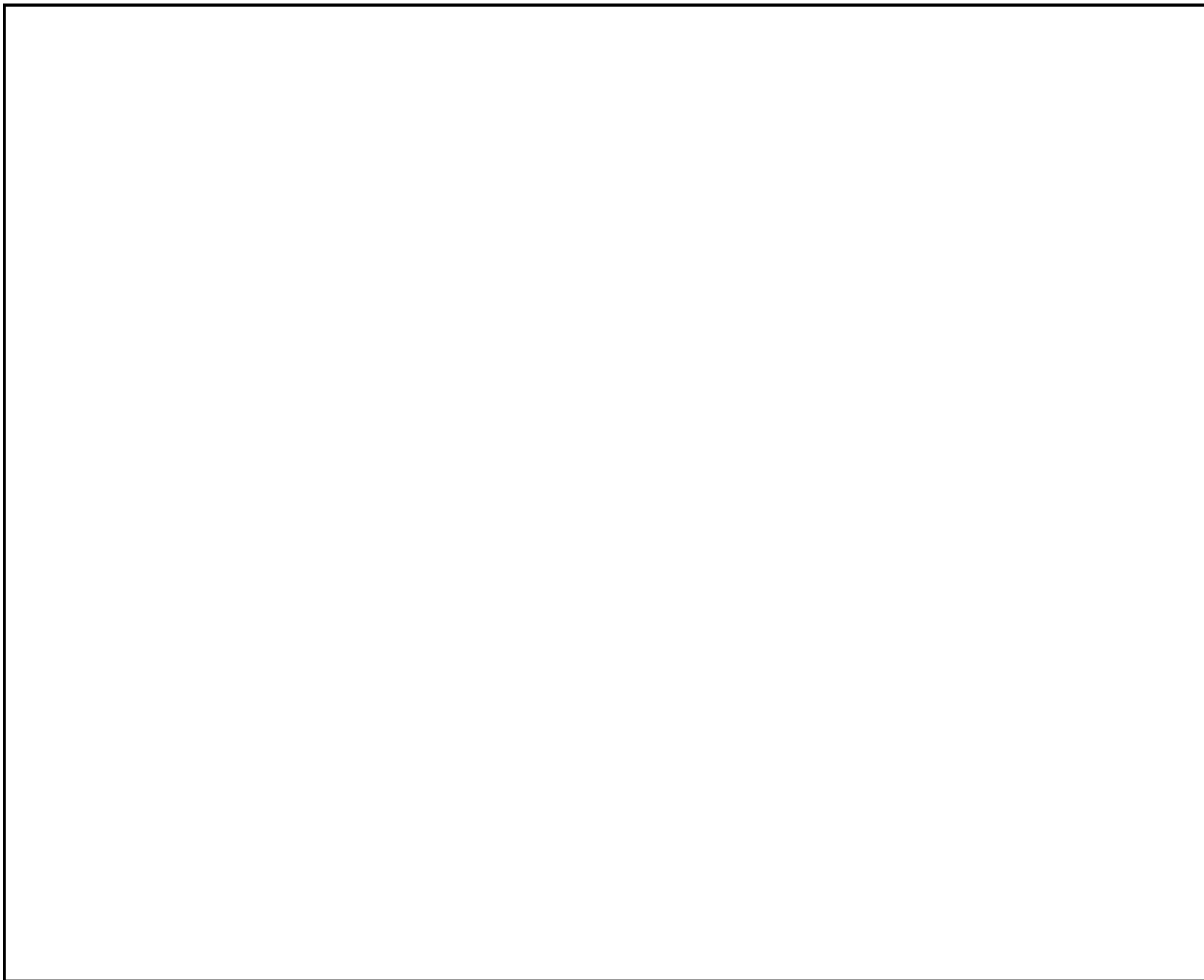
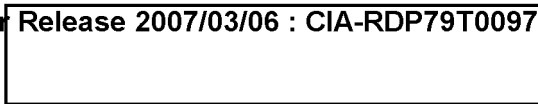
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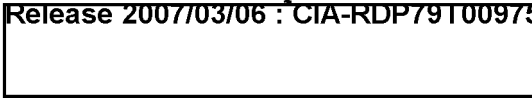
ROMANIA: Ceausescu's Old Games

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 Romanian President and party leader Nicolae Ceausescu met with Spanish Communist Party leader Santiago Carrillo on Sunday in a calculated affront to Moscow. The meeting is the clearest expression of Ceausescu's independence since Romanian-Soviet relations began improving more than a year ago.

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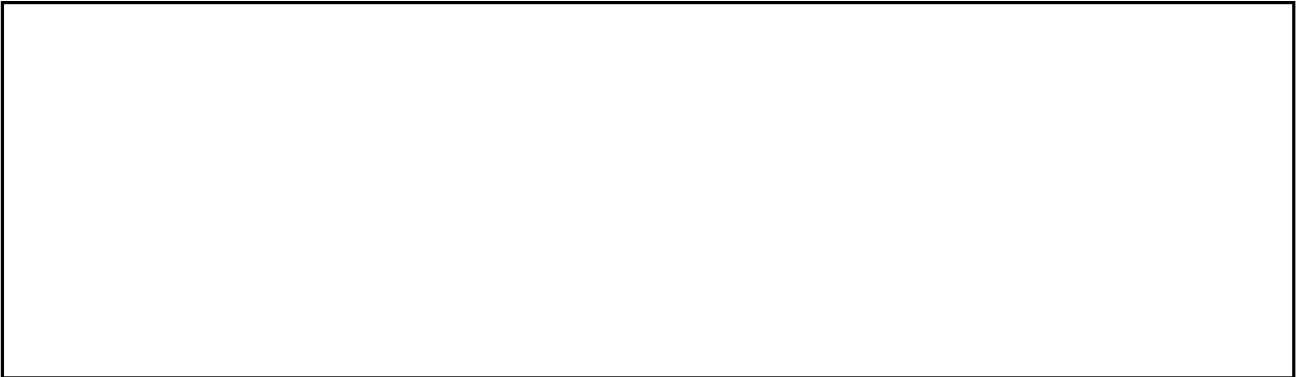


25X1 [] The Romanian press said the talks between Ceausescu and Carrillo were held in "a warm atmosphere of sincere comradesly friendship," a phrase usually implying close identity of views. The press also praised the traditional links between the two parties. By endorsing the leadership of the Spanish party the Romanians indirectly also endorsed the party's Euro-communist line.

25X1 [] In the past weeks, the Romanians have reiterated their opposition to any Soviet attempt to set up a model for communist parties. The meeting with Carrillo may improve Ceausescu's image at home and will be popular with those West European communists, like the Italians, who have resented Moscow's attack on the Spanish Communist leadership. []

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BULGARIA: Hard-Currency Problems

[Redacted] The USSR has reportedly agreed to help Bulgaria out of its tight hard-currency situation by permitting it to divert some exports to the West rather than to the USSR. Although the Bulgarians have cut their trade deficit with the West, balance-of-payments problems persist. If Moscow does not provide some financial assistance, Sofia may be forced to re-negotiate part of its debt to the West.

[Redacted] According to a French official in Sofia, Soviet party leader Brezhnev agreed in May to permit Bulgaria to divert some of its exports to the West in order to increase its hard-currency earnings. The French official thinks that Bulgaria is operating on a day-to-day basis financially and that French lending institutions are becoming concerned about their loans to Bulgaria. The Bulgarian hard-currency debt has soared in recent years, reaching \$2.3 billion at the end of last year. US banks hold more than two fifths of the debt.

[Redacted] //Indications that the Bulgarians were having payments problems appeared in early 1976, when Sofia reportedly attempted unsuccessfully to obtain debt rescheduling from West Germany. In October 1976, Moscow advised the Bulgarians to cut back on their ambitious economic development plans and imports from the West.//

[Redacted] Apparently heeding Moscow's advice, the Bulgarians cut their imports from the West substantially last year. At the same time, exports, which had stagnated since 1973, rose sharply. The trade deficit dropped from a record \$742 million in 1975 to less than \$500 million in 1976. Western data indicate that this trend continued into the first quarter of this year.

[] Bulgaria also succeeded in reducing its private commercial bank borrowings, which account for about four fifths of the country's total hard-currency debt. Between the end of June 1976 and the end of March 1977, Bulgarian net drawings on commercial bank loans totaled less than \$100 million, down from \$244 million in just the half of 1976. Borrowing could go up, however; at the beginning of 1977, Sofia had \$350 million available in unused commercial bank credits and is now seeking two syndicated loans totaling \$250 million.

[] Even if it succeeds in raising funds, Bulgaria may not be able to finance another large trade deficit without outside help. It will need at least \$420 million--about three fourths of projected exports to the developed West--just to service the existing debt. The diversion of some exports from the USSR will help, but it will not free the Bulgarians of the need to control imports carefully.

[] The Soviets may provide some hard-currency financial assistance, particularly if they believe that without it the Bulgarians would be unable to meet repayment obligations. Otherwise, Sofia may be forced to seek rescheduling or refinancing in the West. []

BRIEF

Turkey:

[] Turkish Prime Minister Demirel's conservative coalition government narrowly won a vote of confidence yesterday in the National Assembly. The vote ended the country's two-month-long government crisis, but it is by no means certain that the new government will be any more adept at handling Turkey's mounting problems than was its pre-election predecessor.

[] When the National Assembly meets again today, the government parties are expected to elect a compromise candidate for speaker and then adjourn parliament until November 1. The opposition, hoping to keep parliamentary pressure on the coalition, is likely to resist adjournment, but the government can be expected to hold to the traditional summer recess, already a month overdue because of the government-forming process.

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